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BEFORE THE ARIZONA CORPORATION COM

WILLIAM A. MUNDELL

Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF THE ARIZONA ELECTRIC DIVISION
OF CITIZENS COMMUNICATIONS
COMPANY TO CHANGE THE CURRENT
PURCHASED POWER AND FUEL
ADJUSTMENT CLAUSE RATE, TO
ESTABLISH A NEW PURCHASED
POWER AND FUEL ADJUSTMENT
CLAUSE BANK, AND TO REQUEST
APPROVED GUIDELINES FOR THE
RECOVERY AND COSTS INCURRED IN
CONNECTION WITH ENERGY RISK
MANAGEMENT INITIATIVES.

Docket No. E-01032C-00-0751

MARSHALL MAGRUDER

INTERVENORS SURREBUTAL
TESTIMONY

MARCH 13, 2002

Part I - Background

As a citizen, intervener, ratepayer, voter, taxpayer, senior systems engineer, graduate school instructor, resident of Santa Cruz County and County/City of Nogales Energy Commissioner, I pay one monthly bill to my electricity company. My electricity bill is the accumulation of all factors, including those submitted by the Arizona Electric Division (AED) of Citizens Communications Company (CCC), the "Applicants" in this docket. Ratepayers are concerned with the cumulative impacts of all charges.

This case involves two bundled rates that in the rate making process. The testimony supporting the Application and amendments indicate that increased fuel and transmission rate charges were requested.¹ In addition to these fuel and transmission charges, ACC Case 111 provided an additional, concurrent transmission rate increase for backup

¹ See Direct Testimony of Carl W. Dabelstein dated 16 November 2001 (hereafter as "Dabelstein Testimony"), Citizens Communications Company (hereafter CCC), for this docket, page 4, lines 22 to 24 where he stated the "base cost of power rate is the benchmark against which future power supply cost are measured for purposes of the PPFAC. It is composed of two components: \$.04802/kWh to cover the APS power bills and \$.00392/kWhr for WAPA transmission costs." and on page 18 line 1 to page 19 line 14 which also refer to both of these costs. Summary, PPFAC accounts for generation and transmission costs. Also, see footnote 8 below that indicates this is more than "just" a PPFAC case.

1 electricity to AED's Santa Cruz County operations.² These are the two issues that, in
2 summary, this briefing concerns:

3 Issue 1 - Applicant's requested rate increases and

4 Issue 2 – Additional, concurrent transmission rate increases.

5
6 **Part II – Facts and Resultant Questions Bearing on This Case**

7
8 **ISSUE 1: BASIS OF APPLICANT'S REQUESTED RATE INCREASES.**

9 Issue 1 has resulted a series of various documents filed in this docket since 28
10 September 2000.³ The Direct Testimony submitted by CCC on 16 November 2002 contains
11 CCC's position with respect to its Application to

- 12 (1) Change to the current purchased power and fuel adjustment clause rate (PPFAC),
13 (defined, herein as Issue 1.1)
14 (2) Establish a new PPFAC bank, (defined as Issue 1.2) and
15 (3) Request recovery costs incurred in connection with energy risk management
16 initiatives (defined as Issue 1.3).

17
18 **Issue 1.1 Facts and Unanswered Questions:**

19 CCC stated in its initial Application of 28 September 2000 to complete a three
20 phased study of factors involving this case. Their plan had merit, but their studies were
21 never completed.⁴ Many different excuses were offered in the Application Amendments
22 and "direct testimonies."

23 For example, Mr. Breen stated "Phase II did not reveal any significant practices that
24 would have likely resulted in excessive costs charged to Citizens."

² See ACC Case 111, Docket L-0000C/F-01-0111, "In the matter of the Joint Application of Tucson Electric Power Company and Citizens Communications Company...for a Certificate of Environmental Compatibility for a proposed 345kV Transmission Line System from ... Sahuarita, Arizona to the Proposed Gateway 345/115kV Substation in ... Nogales, Arizona, with a 115kV interconnect to the Citizens Communications Company's 115kV Valencia Substation in Nogales, Arizona ..." dated 1 March 2001 (hereafter referred to as "Case 111" and decided in ACC Decision 64356 dated 15 January 2002 (referred to as "Case 111 Decision").

³ See CCC Application for this Docket No. E-01032C-00-0751, dated 28 September 2000, as first amended on 13 October 2000 and second amended on 19 September 2001, with the later amendments updating the financial data from earlier amendments and providing additional information. Collectively, these are referred to as the "Application" herein.

⁴ See Direct Testimony by Sean Breen dated 16 November 2002 (hereafter "Breen Testimony"), of CCC, page 3, line 21 to page 4 line 6. Any insignificant practices that result in excessive costs should be investigated.

- 1 • How are "significant" and "excessive" defined as all costs should be the true
- 2 costs, any errors must be corrected.
- 3 • Where any corrections made?
- 4 • How large where such errors?

5 For example, Mr. Breen continued his testimony with excuses for not completing
6 Phase III, "Citizens initiated the Phase III analysis process with a comprehensive
7 information request from APS/PWEC, however, APS/PWEC did not provide the requested
8 data on the basis that they were not contractually obligated to under the terms of the PSA.
9 Consequently Phase III could not be completed."⁵ The business agreements between APS
10 and CCC place CCC in the "customer" role with respect to APS.

- 11 • Why did CCC not use other methods to obtain needed information to make its
- 12 assessment, such as appealing to the ACC Utilities Division,⁶ the Federal
- 13 Energy Regulatory Commission (FERC), or Western States Coordination Council
- 14 (WSCC)?⁷
- 15 • If such information, which appears to be very significant for CCC, is not available
- 16 by business means, why did CCC not apply via legal means, including litigation,
- 17 if necessary?⁸
- 18 • Does APS/PWEC have some information they do not want shared or were there
- 19 other motives for APS not wanting to share its information?
- 20 • Why did CCC, as APS's customer, not attempt to purchase electricity from
- 21 another source?⁹

⁵ See Breen Testimony, page 4, lines 2 to 6 and again, Mr. Breen's Rebuttal Testimony of 1 March 2002 (hereafter known as Breen Rebuttal), page 15, lines 20 to 24, indicated "Citizens submitted a comprehensive data request to APS, but APS refused to respond to the data request on the grounds that it was not required to under the Old Contract. Consequently, it was not possible to proceed with the Phase III Analysis."

⁶ .R.S. § 40.203, "Power to Examine Records and Personnel of Public Service Corporations..." and A.R.S. § 40.242, "Production of Records" permits the ACC to request the records of any public service companies in this State or A.R.S. § 40.202, "Complaint by Public Service Corporation Hearing" where any public service company has the same privilege and any other to have a complaint heard by parties designated by the commission. Reports from APS to the ACC could retain their proprietary nature as permitted under A.R.S. § 40.204.

⁷ Breen Rebuttal, pages 15 lines 26 to page 16 line 26, included "Filing a complaint with the FERC on the contract interpretation matter was under consideration at the time as part of Citizens' legal analysis...chances of success at the FERC or the courts was highly uncertain." Are not all court cases, in particular dispute and interpretation issues, uncertain?

⁸ Breen Testimony, page 4, lines 8 to 19, indicates litigation was considered but was not followed through.

⁹ See Breen Testimony, page 5, lines 13 to 17, which indicated that no other suppliers were pursued due to the present PSA. All agreements can be re-negotiated, especially when faulty, as claimed by CCC, or did they really care about past charges, since CCC assumed that ACC would approve them since "this is a

1 Mr. Breen's rebuttal indicated that the Valencia (Nogales) turbines were very
2 profitable in May 2001, saving approximately \$900,000 in one month power supply costs.¹⁰

- 3 • Why were the profitable Valencia turbines not started earlier?
4 • In fact, why were these turbines not continuously ready to generate electricity?
5 • Why did Citizens negotiate a contract with APS that now prohibited from being
6 used in most situations, without APS permission?¹¹

7 Mr. Breen then testified that negotiations effectively broke down so "Citizens shifted
8 its focus to the possibility of negotiating prospective changes in the contract."¹²

- 9 • Why were the correction to the significant "past charges" not vigorously pursued?
10 • Why were "future" charges, that returned to near normal, a major part of their
11 case?

12 Mr. Breen further testified "Since APS/PWEC frequently does not have sufficient
13 generation to meet its native load plus Citizens' load during peak summer periods, it
14 purchased power in the wholesale market during such periods and passed whatever cost it
15 has to pay onto Citizens." The A.R.S. requires that any utility provided a service area
16 provided those customers as its first priority. In fact, that is the requirement to be allotted a
17 "service territory."

- 18 • Who is responsible for Citizens' service territory?
19 • Who is at fault if Citizens' service territory does not have adequate generation?
20 • Why hasn't Citizens' pursued additional generation sources?
21 • How can Citizens, in good faith, sign a sole-source purchase agreement with a
22 company that cannot supply its minimum requirements?
23 • Why didn't Citizens compete for electricity for its service territory, as permitted
24 under the A.R.S.?¹³

PPFAC application. It, of course, is envisioned that it will be conducted quickly." Mr. Christopher Kempley (ACC Legal) disagreed strongly about "it's a little unfair to characterize this as simply a PPFAC filing" (see Reporter's Transcript of Proceeding, Prehearing Conference of 5 November 2001, CCC's quote from page 6, lines 2 to 4, Kempley's, from page 8, lines 6 to 13.

¹⁰ See Breen Rebuttal, pages 17 lines 8 to page 18 line 19, in particular page 18 line 3 for the savings.

¹¹ See Amended Application, Exhibit 2 "Pinnacle West Capital Corporation Rate Schedule FERC No. 4," article 1.9, original sheets No. 6 and 7 "Valencia Turbines" which give full authority to APS "full authority, control, and responsibility for determining the times and seasons for the operation of the Buyer's [Citizens] Valencia Turbines... and Seller {APS} shall determine when and if it is necessary or advantageous to start up and/or utilize the Turbines and the corresponding duration of the operation of the Turbines..."

¹² Ibid.

¹³ See A.R.S. § 40.202B for specific competition policies that were in place during this time period, which permitted such competition. In fact, it appears under A.R.S. § 40.202B(5), such competition was required for Citizens.

- Should APS or should Citizens be found liable under these conditions?
- Why isn't APS a party to this docket?

These excuses, with additional ones in the direct testimony, were primarily due to a **lack of due diligence and possible conflicts of interest** in not pursuing options that could have lead to lowering their PPFAC charges for the timeframe when excessive. Citizens, so conveniently, want to pass on the their consumers.¹⁴ Questions unanswered include:

- Why did CCC not pursue methods to "reduce" these charges are claimed to be based on "faulty" information?
- What was the reason that CCC was not concerned about fair rates for its customers in its service area?
- Why was there no effort to negotiate lower "past" charges with APS?¹⁵

Possible Conflict of Interest in this case:

The firm representing CCC appears to have a potential conflict of interest in this matter and a motion for the law firm of Gallagher & Kennedy to recluse itself has been separately requested.¹⁶ Processes concerning Issue 1.1 are the prime reason for the motion request.

Issue 1.2 Facts and Unanswered Questions:

CCC has requested to establish a new PPFAC bank, using a generous "6.0% interest rate"¹⁷ compared to the "6.5% interest rate" normally charged. The prime interest rate charged by at least 75% of the largest banks have been 4.75% since 1 December 2001.¹⁸

¹⁴ See the CCC Application (entire document with First and Second Amendments).

¹⁵ The FERC set rate caps for California in the fall of 2000. Why didn't CCC join with FERC for identical situation in its Arizona service territories?

¹⁶ See "Motion for the Law Firm 'Gallagher & Kennedy' to Recluse due to a Possible Conflict of Interest in Docket No. E-10032-C-00-0751" of 13 March 2002.

¹⁷ The reference used in Dabelstein Testimony, page 16, from lines 16 to 23, with line 20, indicating 6.0% in a 1999 case. Federal Reserve interest rates were lowered 11 times in the year of 2001. Rates that are more current are reflect today's rates.

¹⁸ See *Wall Street Journal*, 12 March 2002, page C17, "Money Rates." Citizens requested the Federal Reserve Banker's 90-day, non-financial commercial paper rate (Dabelstein Testimony, page 13, lines 18 and 19 and page 14, lines 16 and 17. The above *Wall Street Journal* lists General Electric 90 to 119 day commercial paper loan rate at 1.90%.

- 1 • Why should ratepayers pay a “premium” interest rate higher than the normal
- 2 business loan rate?
- 3 • Should ratepayers pay any interest on disputed bills before resolution?
- 4

5 Issue 1.3 Facts and Unanswered Questions:

6 Citizens' has requested recovery costs incurred in connection with energy risk
7 management initiatives. Again, additional questions require resolution prior to considering
8 any potential based on the risk management initiatives. During testimony by Mr. Ferry, he
9 indicated, “Citizens has implemented several demand-side initiatives targeting commercial
10 customers.”¹⁹ These results of the DSM program were a series of pamphlets, audits (“upon
11 request”)²⁰, and recommendations. None of these are DSM programs they are
12 conservation measures.²¹ The only potential “DSM” program he discussed was “Voluntary
13 Load Curtailment”²² which still fails to meet the DSM definition for “required programs
14 targeted at required reductions of peak demand.”²³ Only conservation programs were
15 discussed in the testimony, with very few “real” measures taken by this company to reduce
16 demand side electricity consumption.²⁴

- 17 • When will Citizens establish a DSM?
- 18 • Why are there very few incentives in the present “DSM” conservation program?
- 19 • When will Citizens permit distributed generation (DG) sources to join in their local
- 20 grids?
- 21 • Has Citizens done anything to encourage DG in its service area?
- 22 • When will residential DSM techniques be implemented?

¹⁹ See Direct Testimony of Thomas J. Ferry dated 16 November 2001, hereafter referred to as Kerry Testimony, page 5, lines 18 and 19.

²⁰ See Ferry Testimony, page 6, line 12. A program that is only responsive “upon request” triggers, is most likely to fail. Without incentives, most commercial business will not be interested in such programs. There appears to have been a limited air conditioner exchange program, for a limited period of time, which did have some success.

²¹ See Breen Rebuttal concerning the “Voluntary Curtailment Program (VCP)” which is a conservation and not DSM program on page 17 line 1 to line 6 and page 18 lines 21 to page 19 line 10.

²² See Ferry Testimony, page 6, line 2.

²³ See Power Marketing Association on-line glossary at www.inter.net/pma definition for demand-side management “The planning, implementation, and monitoring of utility activities designed to encourage consumers to modify patterns of electricity usage, including the timing and level of electricity demand. It refers only to energy and load-shape modifying activities that are undertaken in response to utility-administered programs. It does not refer to energy and load-shape changes arising from normal operations of the marketplace or from government-mandated energy efficiency standards. DSM covers the complete range of load-shape objectives, including strategic conservation and load management, as well as strategic load growth.”

- When will "peak demand" be considered as the basis for DSM decisions?
- When will "load-shaping" be understood and implemented by Citizens?

ISSUE 2: BASIS OF ADDITIONAL TRANSITION RATE INCREASES

I was a party to ACC Case 111, the transmission line system between Sahuarita and Nogales discussed earlier to provide backup transmission services for Santa Cruz County. The Power Plant and Transmission Line Siting²⁵ hearings started on 7 May 2001. I presented a series of questions²⁶ that needed to be answered before information would be available by the committee to make a knowledgeable judgment and ultimate decision. I was prohibited, several times, by the Siting Committee Chairman from asking questions concerning "rates" as this was not the subject of those hearings.

During my Brief for the Commissioners, during Case 111 Review, I additionally presented information concerning "rates" but the decision did not appear to be influenced by that discussion. I am now trying for a third time to have "rate" information considered for that transmission line project.

As discussed earlier, in footnote 1, transmission line charges are a component of PPFAC.²⁷ The present transmission charges, using Citizens' 115-kV transmission line are not in dispute, as Case 111, several times, proved that those transmission lines would remain the primary transmission line service for Santa Cruz County.²⁸ During Case 111 hearings, both Citizens and TEP indicated that the new lines were primarily for "backup" services, even though Citizens has three 16 MW turbo-generators in Nogales.²⁹ This case

²⁴ See Ferry Testimony, page 7, lines 1 to 5, 7 to 12, 14 to 19 and lines 21 to page 8 line 8.

²⁵ Hereafter referred to as the Siting Committee.

²⁶ See Case 111, Magruder Exhibit 1. "TEP/Citizens Data Request One" of 3 May 2001.

²⁷ According to Breen Testimony, page 8, lines 8 to 10, "Citizens has projected energy sales, quantities of generated and purchased power, the cost of energy purchases, transmission costs and generation costs as part of its amended application. Issue 2 discussed transmission costs that were NOT included in the amended application.

²⁸ See Case 111 Transcripts of testimony by Mr. Rasel Craven (Citizens) on 18 June 2001; in response to a question from the Committee, he responded, "The existing 115 line will continue to operate at 115 kV. It will carry load. In fact, it would most likely be the primary path to service our customers in Santa Cruz." Mr. Ed Beck (TEP) made similar statements. See Case 111 Transcript page 1040 line 20 to line 23.

²⁹ See Case 111 testimony by Mr. Beck (TEP), Transcript pages 272 line 25 to page 273 line 1 for transmission line rates charged by TEP and Testimony of Mr. Craven (Citizens), pages 274 lines 17 and 18 for Citizens transmission line rates. Mr. Craven on 18 June 2001, in response to a question "How are you going to recoup your transmission charges" testified, "The transmission costs will go into Citizens rate base. The customers, Citizens' customers will ultimately pay the cost, not only of the transmission construction, but on any operating costs associated with transmission rights on Tucson [Electric] for anybody else's transmission line that happens today, that happens when we have a second line. There is an opportunity in this particular proposal to see recallable transmission rights on the 100 magawatt hat [sic]. That will reduce ultimately the cost to our customers if someone wishes to purchase it." He was then asked "If there's no

1 had testimony that indicated backup services were required for an average of 2.049 hours
2 per year, based on the transmission line outage rate for the past five years, including 1998,
3 a year with high outage that resulted in ACC Order 62011.³⁰

4 The joint Project Development Agreement (PDA) in Case 111 states:

5 "Transmission Service.

6 In addition to the Interconnection Agreement, Citizens will also enter into a service
7 agreement with TEP covering the provision of 100-MW of firm transmission service to
8 Citizens from WAPA's and APS' point of interconnection at Saguaro substation to the TEP
9 Gateway Substation. To the extent the 345-kV configuration of the Project is undertaken
10 and constructed, the Parties contemplate that the charges or cost to Citizens for
11 transmission will be designed in a manner to reflect a cost advantage to Citizens over its
12 initial 115-kV project budget. To the extent the cost (or portion thereof) to Citizens is
13 structured as a tariff rate, such rate will be consistent with applicable FERC rules and
14 regulations. Citizens will support any filings made by TEP to the FERC in respect of any
15 such service..."³¹

16
17 During testimony during Case 111, TEP indicated that the FERC rate would be
18 \$2.23 per kWh-month, which equates to \$2,230/MWh-month and for 100MW then is
19 \$223,000 per month for firm transmission services. This amounts to between \$14.00 and
20 \$15.00 per Citizens customer for the life of the transmission system, which could easily be
21 50 years.³² Over its lifecycle, Citizens signed an obligation to pay TEP \$133,800,000 for
22 'backup' services expected to be required for about 2.049 hours per year.

23 Further, during these hearings, Citizens indicated that it intended to "sell" this as
24 interruptible service to customers in Mexico, so as to not incur the above monthly payments
25 to TEP. It was discussed during those hearings that Mexico electrical generation and
26 transmission rates are not "open" but are purchased on 25-year, long-term contracts by
27 C.F.E, the Mexican electrical utility. Many times during Case 111, both TEP and Citizens

way to sell it south and it's not needed north, otherwise it would have been used north, Citizens' customers would pay more money, wouldn't they?" and Mr. Craven answered "I do not know yet what the ultimate agreement will be with Tucson [Electric]. We have not finalized those agreements. We simply have an obligation on their part to provide up to 100 megawatts, and it would be presumably under their open access transmission tariff." See Case 111 Transcript page 1058 line 12 to page 1059 line 10.

^{30,30} See Case 111 TEP Exhibit 16 (TEP-16), Addendum 2, "Joint Santa Cruz County and City of Nogales, Commission on Energy, Findings, Summary of Technical Issues" of 15 May 2001, page 24, table 2.3-2, total transmission line outages in five years from 1996 to was 10.246 hours ÷ 5 years = 2.049 hours/year of transmission line outage. There is only one line, thus, its average failure rate is 2.049 hours per years.

³¹ See Case 111 Application, Exhibit J-5 "Program Development Agreement (PDA), page 9, paragraph 7B.

³² Annually, Citizens will pay TEP \$2,676,000 and for a 50-life cycle totaling \$133,800,000 for TEP for a 20% of a project's capability that has a capital cost of \$72,500,000 for 500 MW. TEP never admitted during Case 111 that any larger capacity would be used, as it has supply problems. I still believe this project will be for a 1,000 MW transmission line service as was stated by TEP personnel during a meeting with residents of a local community very concerned about these transmission lines. Since I have only been told this, I cannot verify 1,000 MW as its capacity, even though it has a capability for 1,000 MW. See Case 111 Transcript for testimony by Mr. Jerry Smith (ACC staff), page 833 line 17 to page 834 line 1.

1 were asked if they had obtained customers for this type of service. None was always the
2 answer. Case 111 does provide a second transmission line for Citizens, meets ACC Order
3 62011, and is required to be operational by 31 December 2003 (during six of the seven
4 years requested by Citizens for this PPFAC rate increase discussed as Issue 1.1).

- 5 • Should Citizens be permitted to pass through to its customers any of these
6 additional transmission charges for "backup services" if adequate backup exists?
- 7 • How much of a "mandated" action, due to low reliability and service problems in
8 Santa Cruz County?
- 9 • Should "mandated" costs be passed through to its ratepayers (who were not at
10 fault) or should these "mandated" costs be borne by CCC itself?
- 11 • Has Citizens overstepped its corporate fiduciary capability by making such a
12 series of negative agreements for its ratepayers?
- 13 • Will Mohave County ratepayers participate in this "buy" of "backup" electricity?

14 Mr. Breen testified that "securing greater resources than necessary means, at best,
15 under-utilized capacity, and at worst, potentially having to pay for power never taken."³³
16 This implies "cutting too close" when peak exists, the present problem with the APS supply.

- 17 • Is Citizens going to "potentially having to pay for power never taken" and then
18 knowingly "pass through" these charges to its customers?

20 **Part III – Conclusions**

21 Based on poor management, foresight, planning, initiative, and due diligence,
22 Citizens has not presented a compelling case for any of the issues presented. Citizens' has
23 not acknowledged the additional rate obligations, exceeding \$2.5 million per year, in Case
24 111. Citizens' has no risk management plan, demand side management or business
25 capabilities to operate as a successful company in this state. This company's AED has
26 been for sale for over three years. Citizens' capabilities to manage past, present and future
27 electricity services in this state demonstrate its management is out of control. Citizens'
28 remote, non-Arizona top management has not participated in keeping this company as a
29 viable public service company in Arizona.

30

³³ See Breen Testimony, page 6, lines 6 to 8.

1 **Part IV – Recommended Action for the Commissioners**

2 Of all the electrical utilities in Arizona, Citizens appears to have the most ineffective
3 management, foresight and abilities to do business in this state. They have failed to
4 provide responses to my prior “comments” or initial “surrebuttal”³⁴ and thus are posed
5 again. I expect answers to all questions herein in Citizens rejoinder.
6

7 **Recommendation 1** – Within 30 days of this decision, Citizens shall turnover AED
8 management to a receivership established by the Arizona Corporation Commission. This
9 receivership shall determine the fair market value of the Mohave and Santa Cruz County
10 divisions, separate assets between them, and start proceedings to expeditiously establish
11 utilities in each county. Time is critical. The ACC will assume a temporary “board of
12 directors” role to expedite local ownership and management. The goal shall be to complete
13 ownership transfer not later than 31 December 2002. Upon completion, the ACC will
14 compensate Citizens the fair market value not later than one month after ownership
15 transfer.

16 This recommendation benefits CCC with a fair return, meets its goals to “off load”
17 AED, and provides local control and independence to electricity consumers in Mohave and
18 Santa Cruz County. Local AED management in each county is expected to be unchanged.
19

³⁴ As my intervention status was unclear on 19 February 2002, I provided “Comments” on that date as an input into this docket. During public hearings in Nogales, Arizona, the Administrative Law Judge accepted these “Comments.” As she indicated intervention status would occur, I verbally changed the title to “Rebuttal.” After reviewing the Procedural Order of 15 November 2001, the correct title was “Surrebuttal” which was due on 19 February 2002 and thus submitted an Erratum making this change to the title.

Recommendation 2 – In order to resolve payment of Citizens obligations:

Issue 1.1 (PPFAC charges). Citizens will be granted a 25% of actual PPFAC, based on an audit of APS and Citizens' claims conducted by the ACC Staff. The audit shall be submitted to this Commission for approval. The resultant PPFAC will be collected from ratepayers over four and one half (4.5) years, starting 1 July 2002 and completed by 31 December 2007, and paid to CCC. The new utilities shall manage payments. Citizens' ratepayers will not be required to pay the other 75%. Citizens' should seek other sources for payment.

Issue 1.2 (FFPAC bank). Citizens shall be granted a 4.75% interest rate for FFPAC bank interest only on obligations permitted in Issue 1.1.³⁵

Issue 1.3. (Risk Management). The new utilities shall be required to establish effective risk management and demand side management programs.

Issue 2 (New Transmission Charges). Citizens' shall negotiate a new agreement with TEP, changing "100-MW of" to "a negotiated" in the PDA attached to Case 111 Application.³⁶ This permits competitive options for Santa Cruz County. If unsuccessful in negotiation, the ACC shall then intervene with TEP to further discuss this change.

Respectfully submitted this 13th day of March, 2002.

MARSHALL MAGRUDER

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³⁵ The Commissioners may want to consider inserting "Prime" instead of 4.75% with a next calendar month delay to account for Prime changes. The resultant changes in interest payments may either extend or contract the length of payment to account for over/under interest resulting from such changes.

³⁶ Case 111 Application, Exhibit J-5, PDA, paragraph 7B, line 2, with this sentence (quoted earlier) to read “...Citizens will also enter into a service agreement with TEP covering the provision of a negotiated 100-MW of firm transmission service to Citizens from...” Remainder is unchanged.

ORIGINAL and 10 COPIES of the foregoing filed this 13th day of March 2002, with:

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